6/7/88

C0175-1 A

American Banker

The Daily Financial Services N

150222000015 2/ 5/07 C11
CONGRESSIONAL INFOR SREV SRI
ACQUIS EDITOR SRI
4520 E. WEST HIGHWAY
BETHESDA MD 20814

VOL. CLIII NO. 110 Tuesday, June 7, 1988 Year

Today

The New York Fed has peppered Banca Commerciale Italiana with questions about its relationship with a conglomerate owned by the Italian government. In connection with the Milan bank's bid to buy 51% of Irving Bank Corp., the Fed also is seeking information on its loans to Third World countries and its plan for funding the Irving buy. 2

Manufacturers Hanover, which has been in Japan since 1949, is altering its Tokyo operations as lending business takes a back seat to securitization. 2

Banks in areas with a heavy drug trade would have to report transactions exceeding $3,000, instead of the existing $10,000 limit, under a proposal being considered by the House Banking Committee. 3

Richard D. Parsons, 40, has been elected president of the Dime Savings Bank of New York, a thrift with $11 billion in assets. George Kelly, secretary of the Savings Banks Association of New York State, said Mr. Parsons will become the first black president of a major savings bank in the state. 8

The weekly listing of financial services stocks features regional industry groups and price indexes. 16

Executive Changes 8
In the News 3
June-December Calendar 9
Letters to the Editor 4
Worth Reading 24

CORPORATE FINANCE

Chase Manhattan was forced to revamp its plan for a Philippine debt conversion after it failed to attract enough commitments for a mutual fund. Instead, the bank established a limited partnership, slicing its initial target to $50 million from $75 million. 2

A survey of Canadian financial officers reveals conflicting philosophies about bank service. According to the Greenwich Associates study, some corporate officers believe banks that take full advantage of investment banking powers would provide better coverage and service. The other segment fears that a focus on investment banking would cause banks to forsake traditional services. 6

Borrowers are slowly warming to a loan-pricing technique that not only puts a cap on their interest expense but also leaves them free to benefit from declining interest rates. The instrument, called a participating swap, is being used by some of the nation's largest banks. 6

Worth Repeating

The drug problem in America has truly grown to onerous proportions. And the Banking Committee is committed to aiding law enforcement officials.

Fernand J. St Germain, D.-R.I., on a proposal to require banks in areas with heavy drug trade to report smaller transactions. [Page 3]

Queue Forms for FSLIC's Biggest Payout

By JIM McTAGUE
Washington Bureau

WASHINGTON — Depositors of two failed California S&Ls will line up today for their share of a whopping $1.35 billion cash payout by the Federal Savings and Loan Insurance Corp.

Of the $1.35 billion, $1.14 billion will be paid to depositors of American Diversified Savings Bank. That marks the biggest payout since the Federal Deposit Insurance Corp. returned $465 million to depositors of Penn Square Bank, the one-office Oklahoma City bank whose 1982 collapse virtually toppled Continental Illionis National Bank and Trust Co., Chicago.

The FSLIC will also pay out $209 million to cover depositors of the other thrift, North America Savings and Loan Association. Both S&Ls are one-office operations located in the same building in the affluent Los Angeles suburb of Costa Mesa.

Largest Payoffs To Depositors

Institution	Payoff
American Diversified Costa Mesa, Calif.	$1.14 Billion
Penn Square Bank Oklahoma City	$465 Million
Empire Savings & Loan Mesquite, Tex.	$300 Million

The agency said it expects to recover $419 million when it sells the assets of the two S&Ls.

The actions will wipe out 42% of the FSLIC's cash. After paying $1.35 billion to insured depositors, the insurance fund will have about $1.9 billion on hand, the agency said. At the end of 1987, the FSLIC's balance sheet was in the red by $13.7 billion because of the projected costs of closing some 400 problem thrifts, according to the General Accounting Office.

Regulators decided to settle with the depositors after failing for several years to find investors to take over the institutions or their high-interest-rate accounts. The closings were announced Monday.

The institutions relied on brokered deposits to fund high-risk investments, and they never developed the type of retail deposit base that would have appealed to potential buyers, the regulators said. The amount of uninsured deposits in the institutions was not

Queue: Page 22 ➤

COMMENT

Mismatching Revisited

By SANFORD ROSE

There is a right way and a wrong way to mismatch maturities. But, alas, many banks don't appear to know the difference.

The right way is to mismatch in such a fashion that the resulting increase in earnings is not offset by a commensurate rise in the rate used to capitalize such earnings. That way, management is happy and so is the shareholder.

Unfortunately, the average mismatching bank is not now very kindly treated by the marketplace. The evidence from a regression analysis reveals a statistically significant inverse relationship between mismatching behavior and the stock price. The bigger the mismatch, the greater the hit to the stock price.

Because the yield curve has been sloping upward in recent years, and because rates have not risen as much as the slope of the yield curve would have predicted, banks that borrowed at short maturities and lent at longer ones have greatly increased their profits. But this

Comment: Page 4 ➤

Top Bankers Wary Of Loans Backing Leveraged Buyouts

By ROBERT TRIGAUX

CHICAGO — Chief executives from the world's 100 largest banks opened the annual meeting of the International Monetary Conference here with a barrage of calls for enhanced international economic cooperation.

The bankers also sounded a warning that the hot new business of leveraged buyout financing must not become a noose around the industry's neck.

Global imbalances are the "largest and most stubborn in economic history," said Commerzbank chairman Walter Seipp, president of the conference. Mr. Seipp and other speakers noted

Top: Page 23 ➤

J. DRISCOLL & ASSOCIATES
MICRO BANKING SOLUTIONS

OVER 90+ BANKS & THRIFTS
* REDUCED STAFF BY 50-75%
* MAXIMIZED FEE INCOME
* MINIMIZED OUTSTANDING FLOAT
* IMPROVED CUSTOMER SERVICE

I. COLLECTION ITEM RECONCILEMENT
• BOND & COUPON, DOMESTIC, INTERNATIONAL CLEAN & DOCUMENTARY COLLECTIONS

II. SERIES EE BONDS ISSUING & INV. CTL.
• OVER THE COUNTER AND CORPORATE PAYROLLS
• MAGNETIC TAPE & ONLINE COMMUNICATIONS

III. AUTOMATED ACCOUNT RECON.
• TREASURY TAX & LOAN (TT&L) DEPOSITS
• TELLER CASH ANALYSIS / OVER & SHORTS
• CASHIER'S CHECKS & MONEY ORDERS
• HIGH ACTIVITY DDA & G/L ACCOUNTS

JD&A'S MICRO BANKING SOLUTIONS CAN BE TURNKEY INSTALLED AND TOTALLY OPERATIONAL ON A SINGLE IBM PC OR MULTIUSER LAN IN JUST 3-5 DAYS FOR LESS MONTHLY EXPENSE THAN ONE CLERK'S SALARY.

CALL OR WRITE TODAY
J. DRISCOLL & ASSOCIATES
15851 DALLAS PARKWAY SUITE 965
DALLAS, TX 75248
(214) 701-9802

→ Continued from Page 1

earnings growth, say the data, has availed the shareholder naught.

The marketplace thinks that such earnings are of poor to miserable quality. Sooner or later, it reasons, the expectations of much higher rates embedded in the upward-sloping yield curve will be realized.

Then today's contented and complacent short funder will become discontented and perhaps desperate. Anxious to shore up rapidly eroding profits, the ambitious short funder may shift from interest rate gambles to more expansive credit gambles, as did Bank of America and Continental Illinois.

Penalizing the Profitable

So the marketplace will not pay for earnings achieved by uncritically adopting liability-sensitive positions. In fact, while the marketplace tends to penalize all mismatching banks, in 1987 it was harder on those that were liability sensitive than on those that were asset sensitive. That is, it discounted the stock prices of short funders more heavily than those of long funders, despite the fact that the interest rate position of the former produced earnings gains while the posture assumed by the latter resulted in losses.

Is it possible for banks to help their shareholders by mismatching maturities? If the mismatch is done correctly, there is every reason to believe that the marketplace's reaction will be benign. A correct mismatch is one that takes advantage of the liquidity premium in the term structure of interest rates.

The principles underlying the liquidity-premium approach to mismatching behavior have been reviewed repeatedly in this column. But since banks don't appear to have caught on, a reprise of these principles is not amiss.

The liquidity premium arises because investors in some markets want to place funds shorter than borrowers care to borrow. Hence a risk premium must be offered to lure investors into buying longer-term securities. The existence of this premium imparts an upward bias to the yield curve.

According to the pure-expectations hypothesis of interest rate determination, if market participants expect no change in rates, the yield curve would be flat. However, if there is a liquidity premium, then the curve would slope upward.

In other words, any given long rate would not simply be an average of today's short rate and the expected future short rate. It would be higher than that average by the amount of the liquidity premium.

Biased Forwards

Assume that in a particular market the three-month rate is 5.5% while the six-month rate is 6%. Then the implied forward three-month rate (the three-month rate expected three months hence) is 6.5%. If a bank borrows in such a market at three months to fund a six-month asset, then its mismatch will succeed only if the implied forward rate (6.5%) overstates the eventual rise in spot rates.

That is, if three-month rates either fall or rise by less than 100 basis points, the bank makes money. If rates rise by more than 100 basis points, the bank loses money.

If there is a liquidity premium in this market, on average, the implied forward rate will indeed overstate the likely rise in spot rates. Since the six-month rate is higher than it otherwise would be because of the premium, the implied three-month forward must also be higher.

And because implied forwards overestimate the likely movement in spot rates, banks can usually make money short funding their asset maturities. That is, they won't make money all the time, but their mismatches will succeed often enough to make the play worth the candle.

Unfortunately, liquidity premiums are rather hard to find (see this column, Feb. 2). There is no evidence whatsoever of the existence of a premium in the CD market, the Eurodollar market, or the commercial paper market. Thus, in the great majority of markets in which banks typically operate, there is no special incentive to borrow short and lend longer.

But there is very definitely a liquidity premium in Treasuries. So the best chance for a bank to receive liquidity-premium-enhanced returns is to link assets and liabilities directly to Treasury rates. If a bank finances a six-month asset whose yield is tied to a comparable-maturity Treasury with a three-month liability similarly tied, it is likely to be able to refinance that asset three months hence at a lower cost than today's three-month implied forward rate would suggest.

Pricing Off Treasuries

The upshot is that loan officers should make every effort to price money-market loans off a Treasury rate. The current misguided policy, however, is to quote rates based on Libor, CDs, or fed funds. Either asset-liability personnel do not understand that they cannot "gap" such assets on a consistently profitable basis or else, if they do understand, they have failed to communicate this fact to the lending officers.

Suppose that a bank succeeds in tying both its lending and borrowing rates to Treasury yields — a difficult task, even assuming that the bank is aware of the need. Over what time horizon should it maintain the mismatch?

The evidence suggests that the liquidity premium reaches a maximum somewhere between six months and a year. That being the case, it makes precious little sense to mismatch between the short run — under one year — and the long run. Such a mismatch does not increase the size of the liquidity-premium-enhanced return. It merely causes the bank to assume additional yield-curve risk.

Otherwise stated, when the bank mismatches appropriately in the under-one-year period, the expected value of the position is positive — because of the premium — and the variance of returns is acceptably low. When it mismatches between the short and long runs, the expected value of the position is likewise positive, but the variance of returns becomes unacceptably great.

Two Returns

Since there is a consistent profit to be earned from moderate short funding across a confined segment of the Treasury yield curve, one would expect the marketplace to reward an institution that engages in this form of mismatching. It can be argued that such an institution earns two types of return — one derived from the liquidity premium per se and the other from the fact that it is taking some modicum of rate risk.

The liquidity-premium return is almost riskless and will remain so until the government decides to arbitrage away the premium by issuing enough short T-bills to satisfy the apparently excess investor demand for these instruments. But this is an unlikely occurrence. The return from mismatching is, however, subject to some risk.

Because the bank earns two conceptually separable returns, only one of which is really chancy, the market capitalization rate should not rise in precise tandem with the growth in earnings. In other words, intelligent short funding should end up enhancing shareholder value.

If, as the data suggest, short-funding behavior has not yet benefited the shareholder, it is probably because the great majority of short funders presently operate in the wrong markets and in the wrong part of the yield curve. ■

American Banker
The Daily Financial Services Newspaper
Established 1836
One State Street Plaza, New York, N.Y. 10004
(212) 943-6700

Editor: William E. Zimmerman
Managing Editor: Brian P. Sullivan
News Editor: Thomas J. Ferris
Associate Editors: Laura Gross, Sanford Rose, David O. Tyson

NEWS BUREAUS:
Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529; Telecopier: (202) 628-6522.
Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Il 60604; (312) 663-6380; Telecopier: (312) 939-4925.
West Coast: Chief, Robert Luke, Suite 320, 510 W. Sixth St., Los Angeles, CA 90014; (213) 627-0953; Telecopier: (213) 627-8310.
San Francisco: Chief, Michael A. Robinson, 450 Sansome Street, Suite 1420, San Francisco, CA 94111; (415) 986-8705; Telecopier: (415) 398-4156.
New England: Chief, Michael Weinstein, 210 South St., Boston, MA 02111; (617) 542-6848; Telecopier: (617) 542-2221.
London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (011) (441) 439-3066; Telecopier: (011) (441) 734-5153.

Feature Editions Editor: Patricia Stundza
Chief Statistician: L. Michael Cacace
Senior Editor, Copy Desk: Aileen L. Kyte
Art Director: Pamela Budz
Contributing Editor: Paul S. Nadler

President: George W. Landgrebe
Executive Vice Presidents:
Publishing - Edmund C. Burke
Information Products - Robert S. November
Administration - Con A. Rusling
Vice Presidents:
Production Services - Neil Fitzgerald
Advertising - Edward C. Frey
Circulation - James E. McSurely

Advertising:
New York: (212) 943-4259
Chicago: (312) 663-6390
San Francisco: (415) 421-7950
Los Angeles: (213) 382-6346
Charlotte: (704) 522-7181
Classified: (800) 221-1910
International: (212) 943-4250
Telex: 421768 ABKR

Subscription Rates: U.S. $525.00, Canada $775.00.
Canada Air Mail and Foreign $1090.00. Single copy $3.45
©1988 by American Banker • Bond Buyer, a division of International Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in U.S. Patent and Trademark Office.
Published daily except Saturday, Sunday and holidays.
Second Class Postage Paid at New York, N.Y. and at additional mailing offices in U.S.A. (ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, 1 State Street Plaza, New York, N.Y. 10004

For subscription orders and inquiries call:
Outside New York - (800) 221-1809
In New York - (212) 943-9589 Collect.

Wires: WU Telex 882385 Answer Back: AmerBank NYK. WUI 62594 AMERBANKER
Cable Address: AMERBANKER New York.
Telecopier: (212) 943-2222

LETTERS TO THE EDITOR

Lenders Rely Too Heavily On Outside Appraisers

To the Editor:

James Grant's May 18 Required Reading article ["Appraisals for Sale Undermine Real Estate Values," page 4] generally misses the point by blaming appraisals for the current wave of real estate defaults lenders are suffering.

I submit the fault lies with lenders who choose to rely on appraisals rather than educate themselves or hire a sophisticated lending staff. As a workout consultant, I've seen many poor-quality appraisals with no evidence of confirming research by the lender.

Someone familiar and experienced in the real estate industry and in the subject property's market can easily recognize a fraudulent or overstated appraised value.

Lenders would help themselves considerable by closely examining and confirming a commercial property's actual cash flow before debt service (net operating income) which, after all, is ultimately the source of the lenders' repayment.

Granted, there are unqualified and even dishonest appraisers around, but knowledgeable lenders can easily avoid falling into the trap a faulty appraisal opens for them.

Michael McKaig
Consultant to United Savings Bank
Real Estate Projects Group
San Francisco

Education Will Be Key Banking Issue in '90s

To the Editor:

As the number of banking and financial services jobs increases and the number of young people entering the labor market decreases, it is imperative that a larger percentage of those young people have at least the basic skills. The evidence cited in your article and elsewhere suggests that high school graduates are less skilled.

This is definitely a major issue facing bankers in the next decade, and I am pleased to see the *American Banker* giving it the attention it deserves ("The Class of 2000: Will They Be Ready?" March 22, page 11).

It was especially interesting to note the many programs and activities other banks around the country are sponsoring to promote and improve education in their communities. I am sharing this information with our community relations manager.

He coordinates C&S' support to education and is personally involved in a program that provides nontraditional educational opportunities for high school dropouts.

J. Veronica Biggins
Executive Vice President
Citizens and Southern
Georgia Corp.

CORPORATE FINANCE

AN AMERICAN BANKER WEEKLY FEATURE

This Week's Quote

It's very hard for customers to be the first one to do it.

— Security Pacific's David Weinstein, on participating in interest rate swaps

Credit Lines

Citicorp Wins Texas Customer

Citicorp took advantage of the disarray in Texas banking to win a new customer, BSN Corp., a Dallas-based sporting goods company. The New York giant replaces Texas Commerce Bank of Houston as BSN's lead bank.

"We wanted to get out of the banking atmosphere in Texas," said Michael J. Blumenfeld, BSN's president. "Every bit of banking business has become a horror story in terms of time and expense. We wanted to get out of Texas and stay out until the atmosphere changes."

BSN is the type of middle-market company that many banks are seeking as a customer. With 1987 revenues of $100 million, the company has been growing quickly and has been profitable since it went public in 1981. If many Texas companies take similar action, attempts by Texas banks to recover are bound to suffer.

Citicorp will provide BSN with a short-term $35 million credit facility. That will convert to a long-term facility if the planned $42 million sale of its garment division to the Prospect Group is not completed.

BSN plans to use Citicorp's investment banking services for acquisitions and financing. The company also hopes to increase its import and export activities using Citicorp's worldwide presence. "The international flavor of Citi was a very strong point for us," Mr. Blumenfeld said.

The New York bank, which had no relationship with BSN before this agreement, beat out five other competitors, none from Texas.

Citicorp "came back with the most aggressive response in terms of time of completion, pricing, and so forth," Mr. Blumenfeld said. "The time consideration had a lot to do with it. In Texas, in some cases, it can take two to three months to finalize a small transaction.

"They did what they said they were going to do," he added. "In Texas that is terribly unusual."

Four 'Lucky' Banks Added

The bank group backing a $3.1 billion credit for American Stores Co.'s acquisition of Lucky Stores Inc. has been expanded.

The added banks — Citibank, Security Pacific National Bank, Wells Fargo Bank, and First Interstate Bank — have relationships with Lucky or were involved in a $1.8 billion leveraged buyout loan to help the retailer fight off American in May.

American, the Salt Lake City-based food and drug retailer, expanded its acquisition loan from $2.5 billion to $3.1 billion and asked its four coagent banks to contribute $100 million each to a pool to make room for more banks.

Bankers said American Stores could not invite the Lucky banks into the deal when the takeover battle was in full swing because of confidentiality issues.

The four coagents on the American loan — Chemical Bank, Bank of America, Toronto Dominion Bank, and Commerzbank — each reduced their shares from about $430 million to $330 million. A banker in the group said this worked out well because the coagents already held more of the credit than they planned to keep.

Each of the coagent banks will be permitted to sell five participations with full rights and responsibilities to investors at $25 million per package. Earlier in the deal, some bankers had speculated that American would not allow its banks to sell by assignment.

Eighteen banks were invited into the initial syndication with shares between $50 million and $125 million. Banks in the upper tier are permitted to sell two assignments each.

Canadian Corporate Quandary: Defining the Role of Bank Services

By PHILIP T. SUDO

NEW YORK

CORPORATE finance executives in Canada are sharply divided on whether Canadian banks should venture into investment banking, according to a survey released today by Greenwich Associates.

Canada's deregulation policies have allowed banks to engage in a mix of commerce and banking that the Glass-Steagall Act still prohibits in the United States. A survey of 700 Canadian corporate executives there shows that some companies worry that banks will lose interest in traditional banking services.

A third of those surveyed believe banks should minimize their emphasis on investment banking and concentrate on better commercial banking services. Another 60% feel it is unimportant for commercial banks to provide a full range of underwriting and investment advisory services.

But 24% believe that concentrating exclusively on commercial banking is the least effective strategy a bank can pursue. And more than 50% feel no strong need to separate their principal commercial and investment banking relationships.

The Greenwich results indicate that corporate executives adhere to two distinct philosophies of bank service. Some feel that universal banks, taking full advantage of their new powers, would provide better coverage and service. Others fear that a strong focus on investment banking — and its more lucrative fees — will lead banks to forsake their traditional services.

The primary reason banks have become more important to them in the past 12 months, said 28% of Canadian executives, is the banks' capital markets or investment banking capabilities. But the most popular

Canadians: Page 7 ➳

Investment Banking Strategies

The view of Canadian chief financial officers

Strategy	Best	Second Best	Least Attractive
Minimize emphasis on investment dealing and concentrate on commercial banking services	33%	10%	24%
Acquire investment dealers to gain immediate access to the best personnel and market experience	17	14	24
Build investment dealing capabilities internally at a more gradual pace	16	13	9
Develop full service investment dealing capabilities	16	10	20
Develop limited investment dealing capabilities only in areas where commercial banks have existing experience	8	31	7
None/no answer/uncertain	10	22	15

Source: Greenwich Associates

Cap/Swap Mix Helps Manage Interest Cost

By JOHN P. FORDE

NEW YORK

BORROWERS are slowly warming to a loan pricing technique that not only caps their interest expense, but also leaves them free to benefit from declining interest rates.

The instrument, called a participating swap, is being used by some of the nation's largest banks, says David Weinstein, vice president of Security Pacific Merchant Bank here.

"We get a lot of requests for it, but it has a low hit rate," Mr. Weinstein said. "About one in ten actually gets done. It's very hard for customers to be the first one to do it."

The participating swap is one of the latest techniques that borrowers can use to manage interest costs.

Other instruments include caps, which place a ceiling on interest rates, and collars, which place upper and lower limits on the floating rate of a loan. The collar allows the interest rate to fluctuate in a range between a "floor" and a "ceiling" rate.

But each of these instruments has its own limitations. A borrower who expected interest rates to stay at present levels for the life of the loan, for example, might buy an interest rate cap in order to ensure that the rate will not rise above acceptable levels. The cap, however, would be an added cost to the borrower.

In a participating swap, a percentage of the debt bears a floating rate with an agreed-upon cap, and the remainder of the loan carries a fixed rate. A key element in the transaction is that the cap is purchased without the borrower having to pay an upfront fee.

The lender makes up for this fee by pricing the fixed interest rate portion above what the borrower would get for a straight interest rate swap. In the example in the chart, this is the half of the loan, which earns interest at 10%.

The floating portion of the loan bears interest at a rate tied to, for example, the London interbank offered rate for deposits with a maturity similar to that of the credit. Because of the cap, this rate never rises above 10% in the example cited here.

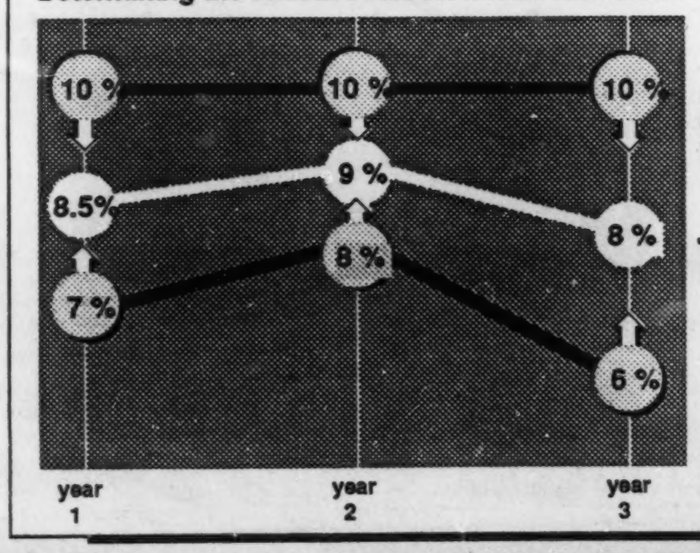
This structure accomplishes a number of objectives for both the borrower and the lender. On the borrower's side, the agreement caps the maximum interest rate to which the loan can rise at 10%. Also, it allows the borrower, through the 50% floating-rate part of its loan, to enjoy half the benefit of dips in interest rates.

For the lender, the above-market portion of the rate is considered the price the borrower has to pay for the 10% interest rate cap on the entire loan.

Also, the technique does not require the bank to set aside an extraordinary amount of capital to offset the risk of the product. Security Pacific, for example, capitalizes the instrument as two separate transactions, an interest rate cap and a swap. ■

How a Participating Agreement Works

Determining the effective rate for a loan with tiered interest rates


10 %
10 %
10 %
9 %
8.5%
8 %
8 %
7 %
6 %
year 1
year 2
year 3
50% of loan paying interest at 10% cap rate for three years
"Blended" effective rate for borrower on total loan
50% of loan paying interest at three-year floating rate: 7% the1st year, 8% the 2d year, 6% the 3d year

Empire Equity Aids Buyouts

Middle-Market Transactions Attract Buffalo Thrift Unit

By DAVID NEUSTADT

NEW YORK

AS one of the few thrifts active in leveraged buyouts, Empire of America has developed a middle-market strategy.

Through its two-year-old subsidiary, Empire Equity Investments Inc., the company provides mezzanine and equity investments in leveraged buyouts. It focuses on transactions between $10 million and $100 million, according to Bruce Bonhoff, administrative vice president of Empire Equity.

The unit does not limit itself geographically, with only one of every 25 investments near its Buffalo base.

Although the parent company has decided to withdraw from commercial lending, the decision will not affect Empire Equity, said Mr. Bonhoff. Empire of America, the fifth largest thrift in corporate lending in 1987, is pulling out of the business because it is not satisfied with the spreads.

Empire Equity puts between $3 million and $5 million into a deal in subordinated debt, preferred stock, or common stock. The unit makes fast decisions, an important element in winning buyout business, according to Mr. Bonhoff, who recently was given increased responsibility for operations.

The only businesses off limits to the unit are high-technology industries. The most important criteria are strong management and positive cash flow.

Bruce Bonhoff

"We don't do turnarounds," Mr. Bonhoff said. "Before the crash, we did very little business because the multiples were so high," he said. "Since then, they have come down to a slightly more acceptable level."

Last year, Empire Equity contributed $15.6 million in income to its parent, up from $10 million in 1986 and $2.9 million in 1985. With a staff of five, its expenses are not substantial.

Mr. Bonhoff joined Empire in 1984 after seven years at Manufacturers and Traders Trust Co. in Buffalo. He graduated from the State University of New York College at Fredonia and earned an MBA in finance from Canisius College, Buffalo. ■

Canadians Ponder Bank Services Mix

➤ Continued from Page 6

reasons cited were related to traditional banking: improved service in operations (36%) and a demonstrated willingness and creativity in providing credit (34%).

A majority of those surveyed agreed — 36% strongly — that U.S. commercial banks should not be allowed to offer full investment banking services in Canada unless Canadian banks are exempted from Glass-Steagall in the U.S. Nevertheless, Canadian firms frequently turn to American banks for takeover defense, international divestitures, commercial paper deals in the U.S., and advice on U.S. mergers and acquisitions.

Canadian banks had feared that with deregulation, foreign firms would invade the domestic market. Although Canada is one of the world's 10 largest economies, its domestic capital markets remain relatively small.

But Greenwich notes that foreign firms have yet to invade Canada for three reasons: some regulatory hurdles remain; the world's largest institutions are focusing their international efforts on New York, London, and Tokyo; and foreign firms have been able to compete for business without a large presence in the country.

The survey found that Canadian firms look for financial services on a transaction-by-transaction basis. Sixty-eight percent of corporations surveyed said they are transaction oriented and 32% relationship oriented. That is almost the mirror opposite of U.S. corporations, of which 62% emphasize relationships and 38% transactions.

The mean number of banks used by Canadian corporations is five — this is a country where a handful of leading banks dominate the financial scene. Large firms paid nearly $500,000 in noninterest fees to their commercial banks over the past 12 months, for services such as account handling, cash management, and assurance of credit availability.

For investment banking services, the typical corporation averages 3.3 relationships. The key factors they cite when considering a secondary firm for capital markets or corporate finance activities are creative and innovative ideas (57%), a solid understanding of the company's financing needs (46%), capable product specialists (36%), careful documentation and explanation (29%), and the ability to make prompt commitments (27%).

Over the past 12 months, the average firm paid fees and commissions of $2.9 million for capital markets and corporate finance activities — more than twice the previous year's level, according to the survey. ■

Tell City Application Approved

ST. LOUIS — The Federal Reserve Bank of St. Louis has approved the application of Citizens National Bank Corp., Tell City, Ind., to become a bank holding company. ■

3 Banks Lend Support to Macmillan

By SUZANNE E. MILLER

NEW YORK

THREE banks have agreed to lend Macmillan Inc. $1.2 billion to finance the publisher's struggle to remain independent from its unwanted suitor, the Robert M. Bass Group, Fort Worth.

On Saturday, the group boosted its bid to $73 from $64 for each of the company's 28 million shares outstanding. That raises the total bid to about $1.9 billion from $1.6 billion. The Bass group now owns about 9.1% of the stock.

Citibank, Morgan Guaranty Trust Co., and Toronto Dominion Bank have scheduled a meeting for June 14-15 and plan to invite 45 lenders into the syndication. Manufacturers Hanover Trust Co. and Bankers Trust Co., traditional lenders to Macmillan, are not participating in the loan, bankers said.

The credit package will be structured in two parts with the bulk of the money in a reducing revolving credit. The remainder will be in an asset sale bridge loan. Bankers said they are still working on details of the loan sale.

One banker noted that Macmillan "would like to have some say," either directly or indirectly, over which banks join its lender group.

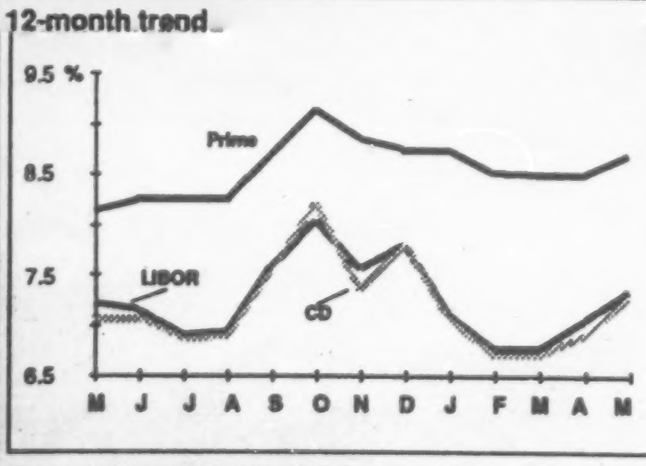
Bankers noted that the company has allowed some secondary loan sales activity in the past, although the publishing and information company historically is not an active borrower.

As part of its move to remain independent, the publisher announced last week that it would restructure by spinning off assets and creating another company. This may have seemed sudden to many market participants, but bankers said Macmillan has been working on the $1.2 billion loan for at least four months.

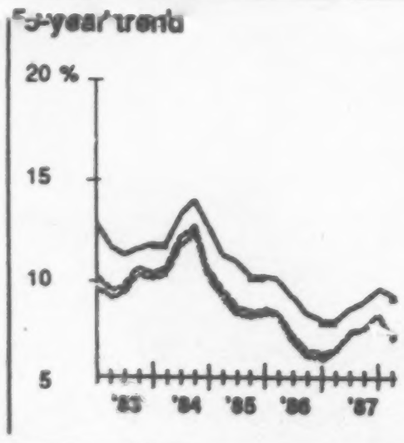
If the restructuring move is successful, the publishing company will be divided into two separate entities: Macmillan Publishing and Macmillan Information Co. ■

Interest Rate Monitor

12-month trend



5-year trend



Monthly Averages

	This Month 5/88	Last Month 4/88	Year Ago 5/87
Prime	8.70	8.50	8.14
CD (90 Day)	7.29	6.89	7.05
LIBOR (90 Day)	7.34	7.05	7.21
Prime-CD	1.41	1.61	1.09
Prime-LIBOR	1.36	1.45	0.94
LIBOR-CD	0.05	0.16	0.15

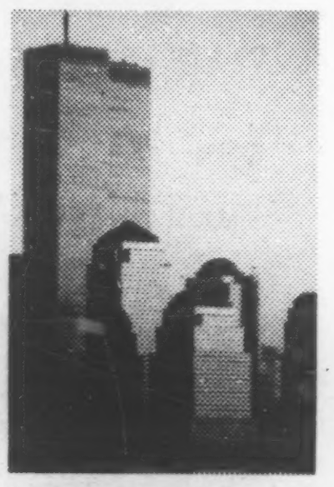
Note:
The charts and table shown here report three rates of concern to most bankers. The large chart shows average monthly rates for Prime, CD, and LIBOR for the past year.

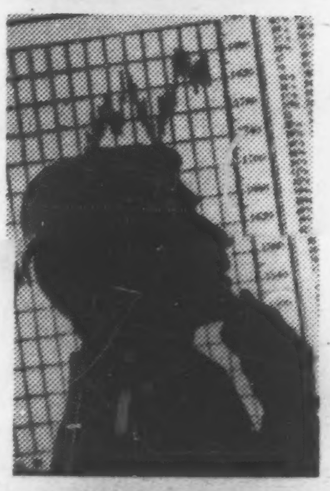
The smaller chart provides quarterly averages for five years.

The table shows last month's figures and the differences between the rates.

Source: Loan Pricing Corporation

FRAMES OF REFERENCE





MIDLAND MONTAGU

THE WORLD IN ONE

A single phone call and you reach a global intelligence network plugged into foreign exchange, international securities, precious metals, money market instruments, options, swaps and much more. Staffed by traders who deliver quality products and services. You will find them at Midland Montagu.

For further information, please contact Midland Montagu in New York:
Gregory J. Muth
(212) 715-5915

Midland Montagu in the United States is part of the global financial network of Midland Group, London.